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Argentina

Exporter Guide

Annual Report

2005

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Report Highlights:
In 2006, Argentine imports of foods and beverages are forecast at $600 million. A growing domestic economy, an appreciating peso, and an expanding retail sector are expected to open new opportunities to imported products.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[AR]

SECTION I. MARKET OVERVIEW

Business Climate

After three years of economic recovery and the maintenance of a stable exchange rate, imports of high-value food products in 2006 are projected to increase to about $600 million. As a result of the severe devaluation in 2002, imports of foods and beverages dropped considerably from $1 billion to $350 million that year. Imports began to recover in 2003 and are expected to continue to do so in the future.

Many local economists project for 2006 an inflation of about 10 percent and the exchange rate to remain at around 3 pesos to a dollar. Therefore, the value of the peso will most likely strengthen, making imported products more accessible. However, post anticipates that the market will continue to be oriented almost exclusively to the higher income section of the population and limited to specific products, not the market of the last decade that carried a wide selection of imported foods and beverages (F&B) at very competitive prices.

Best prospects are in products of well-known national brands and commodity products, which are not produced domestically (e.g. palm hearts, tuna fish, bananas, coffee, cocoa, pepper, etc.). Also, post foresees increased opportunities in the food ingredient sector as most local companies, after the devaluation, have become very competitive in world markets (Argentine food and beverage exports are expected to expand 20 percent in 2005). Likewise, many lines of products, which had been discontinued in Argentina and whose production had begun in neighboring countries, have been brought back and are now manufactured locally. This development of new products for the domestic market provides good opportunities for new food ingredients.

Nowadays, most imported F&B products are ultimately sold in large supermarkets. Retailers source their products from the few local importers/agents, which continue operating, and through direct imports in many cases. Convenience stores are in the process of incorporating imported products.

Argentina is experiencing economic growth and imported F&B are returning to the market. Argentines had available a wide range of imported foods and beverages for a decade and got used to them, until the economic collapse of 2001/02 made their importation infeasible. As soon as consumers have the possibility to purchase them, they will do so.

- Supermarkets are rebuilding their lines of imported F&B products to attract customers with strong purchasing power.

- Apart from carrying the most popular imported foods and beverages, retailers are incorporating a wide range of new products from large U.S. food manufacturers.

- During the crisis consumers shifted from value-added products to more basic foods. However, premium brands are back. This trend is expected to continue throughout 2006.

- As a result of the devaluation in 2002, the price in pesos of all products increased markedly. While imported products are now roughly 3 times more expensive than during the 1990's, prices of locally manufactured food and beverage products doubled.

- Import duties of high-value foods have dropped considerably since 2002 (from an average of 35 percent to 19 percent).

- In general, Argentina has a relatively open trading system with moderate tariffs (most F&B products fall between 15.5 and 21.5 percent), no quotas or restrictions, and reasonably transparent labeling and sanitary requirements. Most FDA-approved processed F&B products are importable.

- In general, Argentina is an import-friendly country with regulations, which usually are applied consistently, but unexpected changes in current regulations may require additional efforts to ensure that export operations are successful.

- Shopping, which used to be carried out by Argentines in only one or two large stores, is now done in a greater variety of stores as consumers search for the best price and value. Since 2002, wholesalers, small grocery and warehouse stores (locally called *hard discount* stores) increased their market share compared to supermarkets. However, in 2006, supermarket and superstore chains are expected to begin slowly to recover part of their loss in sales of the past few years as result of the economic crisis.

- Investment in the 1990's was significant. However, during 2000-2003, as a consequence of the strong recession and the economic crisis, investment declined strongly. However, investment in 2005 and in 2006 is expected to be strong in all the different channels.

Retail Food Sales

- Total F&B sales in superstores and supermarkets in 2005 are estimated at $4.8 billion. With continued economic growth projected for 2006, total F&B sales in superstores and supermarkets are expected to total US$5.4 billion.
- F&B imports are expected to increase in 2006 as the country continues to grow, and overall economic conditions improve.
- The U.S. share of imported consumer-ready food products averaged 6 percent in 1998-2000. In 2005, it decreased to 3 percent primarily as a result of recession and the severe peso devaluation of 2002 (EU's market share dropped from 15 percent to 7.5 percent). As the economy recovers, the supply of U.S. F&B products is expected to increase due to: 1) the increasing influence of U.S. culture, 2) advantages in sanitary standards in comparison with European products, and 3) improved competitiveness given the appreciation of the Euro vis-à-vis the dollar.

- After the devaluation, the share of imported foods and beverages from the region has increased, as prices and costs of regional goods are significantly lower. Imports from Brazil, Ecuador, and Chile accounted for 72 percent in 2005 (from 63 percent in 2000).

Income Distribution

- Argentina's population in 2005 is estimated at 37.5 million, of which less than 10 percent lives in rural areas. One third of the country's total population lives in Buenos Aires city and suburbs, and accounts for approximately 50 percent of the country's consumption.
- Other large cities with more than 1 million people are Cordoba, Rosario and Mendoza. These three cities together account for approximately 15 percent of total F&B sales.
- The upper economic group accounts for 10 percent of the country's total population, with a minimum yearly household income of $14,000, and the middle groups account for 50 percent of the total with an average income of $7,000. The poorer segment

represents 40 percent of the population and has a maximum yearly income of about $3,500.

- As a result of the recent economic crisis, the number of Argentines in the upper income segment decreased. However, as the economy recovers, the number of wealthier consumers is growing slowly. Salaries in general are adjusting upwards.
- Sales in supermarkets vary enormously depending on the neighborhood. Premium brands continue to be strong in upscale areas, while sales of basic foods are larger in lower-income areas.

Outlook for U.S. Exports of Food & Beverage Products

Below are the strengths and weaknesses of U.S. food and beverage products in the Argentine market:

ADVANTAGES	CHALLENGES
Argentine consumers think of U.S. products as high quality and reliable.	Mercosur preferential tariffs encourage inter-regional trade. Brazilian competition is strong for many products.
Many Argentines have traveled and studied in the U.S., and know American culture and products. Exposure is also expanding through cable TV and the Internet.	There have been relatively small initial purchases by importers, which discourage U.S. suppliers and increase unit costs.
Most local retail chains want to carry a good variety of imported F&B on their shelves.	There is a large local supply of many F&B products.
Imported food from the U.S. and the E.U. is practically all considered gourmet.	Large foreign investment in the domestic food industry during the 1990's improved efficiency, quality, and competition.
U.S. F&B products are known for their efficiency, value and variety.	Higher distribution costs are incurred to reach interior of the country and smaller cities.
Hypermarket and superstore expansion in the interior permits good country coverage.	Local importers perceive a lack of flexibility and response from most U.S. exporters.
Large retail chains have more opportunities to deal with foreign suppliers.	There is a larger number of U.S. companies which consolidate mixed containers.
There is a good local cold chain. However, the market for these types of products is limited.	High value of the dollar (vis-à-vis the peso), makes imported products more expensive.
Local retailers have gained exposure to U.S. exporters and products through FAS activities.	Economic condition, and large unemployment limit sales.
Improved U.S. labeling and packaging increase local acceptance.	Advertisement and marketing of locally manufactured products is very effective.
A growing local F&B industry opens new opportunities to imported food ingredients.	

SECTION II. EXPORTER BUSINESS TIPS

Local Business Customs: Keys to Success in Argentina

- Appoint a representative, agent or importer.
- Spanish language in printed materials preferred, although most importers speak English.
- Display samples.
- Have a long-term outlook.
- Use a personalized approach.
- Contact top decision-makers.
- Provide consistent attention in service and delivery.
- Do not take “no” for an answer – engage in frequent visits and follow-ups.
- Get a contract in writing.
- Be willing to accept credit terms. From the time the importer places an order to an exporter to the time he collects payment from retailers, a minimum of 3-4 months can go by.
- Be flexible with volumes.
- Get ready to receive requests from importers for exclusivity agreements to market your products locally.
- Protect and register your trademarks.

The Consumer

Consumers in Argentina are going through a transition period. During the economic crisis their behavior was modified. Many of these changes will take time to go back to normal, while others are already the same as prior to the crisis. High and middle-high consumers can afford buying imported F&B and represent a market of about 8-10 million people. This segment accounts for more than 65 percent of the income and almost 40 percent of food and beverage purchases. The less affluent buyers seldom buy imported foods and currently represent two thirds of the population.

<u>Upper and Mid-Upper End Consumers</u>

- Based on an article published by *Mercado*, a leading business magazine, Argentine consumers are rational, practical, refined and demanding. Therefore, they want things quicker, easier, healthier, and cheaper.
- The more affluent customers of which account for 18 percent of the total population, buy premium brands, are health conscious and pay little attention to prices.
- The following 20 percent buy well-known brands and focus on value. Recovering purchasing power is encouraging people to buy imported products and also to make impulse purchases.
- Traditionally, Argentines have been very conservative and influenced primarily by Europe.
- Younger generations (30/35 years old or less) are more open and oriented towards U.S. culture
- There is a clear increasing concern about fats and cholesterol in the diet. As a result, diet, light, skimmed or fat-free food products, and functional foods continue to increase in popularity.
- The majority of Argentines still adhere to a diet dominated by beef, French fries, salad,

and pasta.

- Hot and/or spicy foods are not widely popular.
- Eight out of ten retail decision makers are women, and three quarters are +36 years old.
- Children play an important role in the family's food purchases.
- Dining out is mainly left for social events during weekends or for business purposes during weekdays.
- Food delivery is popular (most typically pizza and ice-cream, but also some restaurants provide delivery service).
- About 60 percent of the middle and upper class families have microwave ovens and 75 percent have freezers.

Although not extremely popular, a number of ethnic restaurants (Mexican, Thai, Japanese, Hungarian, Persian, Indian, Jewish, Russian, among others) can be found in Buenos Aires.

Food Standards and Regulations

- The Argentine Food Code (Codigo Alimentario Argentino - CAA) regulates local food production and marketing. However, the CAA resolutions are being gradually replaced by Mercosur standards, which are based on the norms of: 1) the European Union; 2) the Codex; and 3) the FDA.
- There are three official entities in Argentina which regulate food and beverage imports, as follows:

  * *National Sanitary and Agrifood Quality Service* - ***SENASA*** - handles fresh, chilled or frozen products and by-products of animal, plant and seafood origin. It also handles canned products of over 60 percent animal origin and food preparations of over 80 percent animal origin.
  * *National Food Institute* - ***INAL*** - regulates processed food products which are prepared for direct human consumption, health supplements, and both alcoholic and non-alcoholic beverages, with the exception of wine.
  * *National Wine Institute* - ***INV*** - exerts control over wine products.

- Each entity requires specific documentation to register imported products. Very few U.S. F&B products have been unable to access this market. However, there are a few products, such as some stone and citrus fruits, sweetbreads and other beef products, and pork which still cannot be imported due to sanitary reasons. Also food products containing flour must be enriched flour.
- The local importer/agent has to go through the registration process.

For additional information on this section, please refer to our *Food and Agricultural Import Regulations and Standards report (FAIRS) (AGR# AR5023)*, which you can find in the agricultural country report section of the FAS Homepage: www@fas.usda.gov

General Import and Inspection Procedures

- Products imported through **SENASA** - An approved local importer requests from SENASA an import permit, which will then be submitted to Customs to have the product released.
- Products imported through **INAL** - Once the importer has obtained the "register number of food product" (RNPA), and the shipment is in the port, the importer needs to apply at INAL for a "Certificate of Free Circulation" which will be submitted at Customs to have the merchandise released for sale.
- Products imported through **INV** - Once the product arrives at the local warehouse, the

importer must request an analysis and shipment control by the INV, which will then issue a "Certificate of Free Circulation". After that, the product is ready to be marketed.

When the shipment arrives at Customs, the products are inspected (labels, shelf-life, temperature, etc.) to confirm that the information in their files matches the actual shipment. If everything is correct, the load is released.

For additional information on this section, please refer to our Food and Agricultural Import Regulations and Standards report (FAIRS) (AGR# AR5023), which you can find in the agricultural country report section of the FAS Homepage: www@fas.usda.gov

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

- Since early 2004, market opportunities for the three food market sectors in Argentina: retail; hotel, restaurant, and institutional (HRI); and food processing, have been gradually improving, after the severe economic crisis of 2001-2002. The food ingredient and retail sectors show the best prospects for the marketing of U.S. products in the near future.

Retail food sector

- Roughly 33 percent of Argentina's total F&B sales, and over 70 percent of all imported F&B products are sold through hypermarkets and supermarkets.
- During the past few years, large retail chains expanded to the interior of the country after the City of Buenos Aires and its suburbs became saturated. Currently, they continue to expand but are shifting to the discount store format, which offers lower prices, a high percentage of private label and B-brands, and limited service. A few new supermarket openings are taking place in larger cities in the interior of Argentina, taking advantage of the gradual recovery of purchasing power, the reactivation of regional agricultural economies, and an increasing number of tourists traveling within the country.
- Several international retail companies operate in Argentina (Carrefour, Casino, Wal-Mart, Jumbo).
- Although large hypermarkets and supermarkets (including warehouse stores, which are owned by large retail chains) still concentrate a significant portion of the retail F&B market (approximately 40 percent), smaller supermarkets and traditional stores have gained market share (approximately 54 percent) due to: 1. lower prices rapidly approaching promotional prices offered by larger supermarkets, and 2. proximity. Lately, smaller supermarkets and traditional stores have been regaining market share lost during the past few years to large and more efficient retail stores. This is due to the fact that some less affluent consumers resort to the traditional store in their neighborhood for small purchases, since the owner usually provides credit.
- A couple of the largest food retail chains opened separate areas in some of their stores, devoted for the wholesale of food products to face competition from wholesalers.
- Although volumes of imported F&B decreased significantly after the economic crisis, there are good opportunities for some U.S. consumer-ready food products due to their high quality and image. Supermarket chains are currently rebuilding their lines of imported F&B, focusing on those products of well-known brands, which consumers with a high purchasing power will buy and pay a premium for.
- In 2005, the retail sector showed the following trends: recovery of some imported line products, fewer brands, more private labels, F&B import substitution with domestically-manufactured products, and a re-emergence of more expensive first brands. Ethnic, kosher, organic, and functional foods are gradually gaining more shelf space.

HRI sector

- The HRI sector is estimated to account for less than 10 percent (around $1.3 billion) of Argentina's total F&B sales, and is expected to comprise approximately 5 percent of the total imports of F&B in 2005. Although the business shrank as a result of the severe economic crisis of 2001/2002, it began recovering gradually in 2003 and it is expected to continue to do so in 2006..
- Of the HRI's total imports, U.S. F&B account for about 5 percent.
- HRI operators prefer fresh products to those precooked, preserved, frozen or canned. In the past few years, they have been gradually incorporating consumer-ready food products because of their high quality and easier preparation but after the crisis, they went back to preparing most of their meals in-house.
- Most top hotels are importing food ingredients directly to keep the traditional quality standard in the food service they provide. They also import specialty foods which are not present in the local market and are requested by foreign tourists. Foreign tourists account for around 80-90 percent of the total customers of five-star hotels.
- The quality of raw materials used by restaurants declined in 2002, but is currently becoming a priority again, especially in highly rated restaurants whose customers are primarily foreign tourists and affluent Argentines.
- Almost all F&B goods are domestically produced. There are some exceptions of specific alcoholic beverages and table-top products, which generally are of very well-known brands.

Food processing sector

- In the past decade, many large local F&B companies were purchased by foreign multinationals or financial funds. This, plus the fact that there have been mergers and acquisitions internationally, resulted in strong local concentration.
- Due to the recession, most F&B companies have also had to produce less expensive options, such as second and third brands, and retailers' private brands.
- Production is primarily focused on the domestic market. However, after the devaluation in 2002, most companies have expanded exports.
- Due to the economic recession, demand of food ingredients dropped by approximately 30 percent, reflecting the decline in the local F&B market. During the second half of 2004 and 2005, there have been strong signs of revival in domestic consumption.
- Most food ingredients continue in the market. However, local processors try to substitute foreign products with more inexpensive products manufactured locally or in other Mercosur countries. In some cases, this is not possible, since many ingredients are only produced outside the region.
- There are good opportunities for U.S. ingredients for the manufacturing of functional foods and beverages. This is a new trend, which is increasingly affecting eating habits in Argentina.
- Demand for 2006 is projected to continue to grow as a result of the continuation of a strong economic recovery, and larger F&B exports. Several companies and some of their lines of products, which during the past few years had left Argentina, have come back due to the gain in competitiveness after devaluation.
- Despite the good reputation of U.S. products in Argentina and the high value of the Euro compared to the dollar, food ingredients still face strong competition by European products, primarily from Italy, France, England, and Germany; from Mercosur

countries, primarily Brazil and Chile; and from China, where several U.S. companies have established branches.

Market Entry

The best method to import a product will depend upon the product itself, the importer, and retailers. Successful trade depends upon the commitment of the exporter to devote the time and resources necessary for building a market for his/her product(s). In general, imported F&B come into Argentina through the following ways:

-- Direct imports by supermarkets. Import or purchasing managers of large retail companies identify products in international food shows, buying missions, etc. They establish a direct contact with the foreign supplier or local agent and import the products directly. Due to small initial volumes, it is common for them to use large wholesalers or consolidators in the U.S.

-- Local agents, who work closely with large retail chains. Imports are done on behalf of supermarkets and agents charge a commission. They stay on top of the product to supervise its marketing and brand development.

-- Local F&B importers, who import products and then market them in supermarkets and/or HRI establishments. There are a few of these who have been in the market for several years and have well-established brands. They mainly specialize in gourmet foods.

-- Local processors (mainly subsidiaries of multinational companies) such as Nestle, Kraft, Pillsbury, Cadbury, Heinz, Mars, Danone, Unilever, etc., which import and distribute products usually manufactured by their sister companies. Imports through this channel have dropped significantly with the economic crisis, but are projected to increase again.

-- In the case of food ingredients, they are either imported directly by food processing companies, or through an importer/representative.

Trends in Promotional / Marketing Strategies and Tactics

As a result of the economic difficulties, promotional activities by the different countries and private sector have diminished considerably. However, this represents a good opportunity for those who are willing to invest in promotion, as the impact is much more effective. Furthermore, promotional costs in dollar terms have decreased significantly. A lot can be done with little.

Up until the devaluation, market promotion activities by foreign countries consisted mainly of trade missions, supermarket in-store promotions, menu promotions, buying missions, and trade shows. European countries were very active through government programs, and neighboring countries were also very active but through private companies.

Trends in Tourism and Internet Sales

➢ According to an article published by *Mercado* magazine, over $3 billion were invested in the Argentine hotel sector during 1991-2001, especially by international chains such as Best Western, Caesar Park, Sheraton, Accor, Radisson, Four Seasons, Days Inn, NH, among others. This sector, especially five-star hotels, has benefited from the devaluation, which made Argentina more competitive for international tourism, primarily from Latin American countries. Private sources estimated that, in 2003, $235 million were invested in the hotel and restaurant sector. These were both local and foreign investments. New five and four-star hotels continue to be inaugurated throughout the country. Investments in the hotel sector are expected to continue growing in 2006.

- Devaluation and recession have made more affluent Argentines spend their vacations in-country instead of traveling abroad. However, during the past year, an increasing number of Argentines are choosing foreign tourist destinations. Foreign tourism, primarily from Germany, Japan, and the U.S., decreased in 2003 due to increasing crime in Argentina. However, it began to recover in 2004, and tourists have been coming, primarily from Germany, Spain, Chile, Brazil, and the U.S.

- Another significant indicator, which had a negative impact on tourism, was the fact that several international airline companies (American Airlines, Lan Chile, Mexicana, Air Canada, British Airways, Lufthansa, Qantas Airways, United Airlines, among others) stopped operating, or reduced flight frequency, in 2002. As of December 2003, this changed since most of the above firms showed renewed interest in the Argentine tourism market and have incorporated new destinations to their routes. The reasons for this change in strategy are the attractive exchange rate for international tourists, and economic growth.

- The GOA considers tourism as one of the key industries to develop and is making efforts to enhance Argentina's image abroad. Three years ago, the GOA assigned professionals to several Argentine embassies to promote international tourism.

- A few retail chains provide Internet and phone sales service. However, sales of foods through the web are currently not very popular. This is expected to change in the near future as the number of Internet users has been growing annually by 15 percent during the last few of years (currently, 10 percent of the total population, i.e. around 4 million people, has contracted Internet services).

For additional information on this section, please refer to our Retail Food Sector report (AGR# AR4059), which is found in the agricultural country report section of the FAS Homepage: www.fas.usda.gov

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Under the current economic situation, which combines a strong dollar (vis-à-vis the peso) and diminished purchasing power, best prospects are for commodity-type products and food ingredients. All these are products that are not produced locally or their production is not sufficient to supply the entire domestic demand.

I) Imported F&B goods considered "commodities" (products whose domestic production is not sufficient to satisfy local demand. These basically compete based on price):

* Palm hearts
* Pepper
* Canned pineapple
* Coffee
* Canned tuna
* Bananas
* Dried lentils
* Fruit juices

II) Food Ingredients

* Pork, frozen
* Cocoa paste/butter/powder
* Coffee-based preparations
* Natural colors, essences, and fragrances
* Soup preparations
* Beverage preparations
* Hop extract
* Food additives
* Ingredients for the dairy and meat industries
* Starches
* Raw nuts
* Health supplements
* Ingredients for functional foods

III) There are also some high-value food products for which there is a significant demand, especially products of very well-known international brands:

* Chewing gum
* Sauces
* Candy
* Energy drinks
* Bonbons
* Alcoholic beverages
* Snacks
* Pet food
* Cookies
* Cheese
* Prepared nuts

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Government Regulatory Agencies

Servicio Nacional de Sanidad y Calidad Agroalimentaria (SENASA)
Avda. Paseo Colón 367, piso 5
1063 Buenos Aires, Argentina
Tel: (54-11) 4331-6041/6049
Fax: (54-11) 4331-6041/6049 (ext.1028)
www.sagpya.mecon.gov.ar

Instituto Nacional de Alimentos (INAL)
Estados Unidos 25
1101 Buenos Aires, Argentina
Tel: (54-11) 4342-5674; 4340-0800 (ext. 3538)
Fax: (54-11) 4340-0800 (ext. 3514)
Website: www.anmat.gov.ar

Instituto Nacional de Vitivinicultura (INV)
San Martín 430
5500 Mendoza, Argentina
Tel: (54-261) 521-6600
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E-mail: dirnac@inv.gov.ar
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APPENDIX I. STATISTICS

A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports from All Countries ($Mil) / U.S. Market Share (%) 2004	$960 /7%
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%) 2004	$475/3%
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%) 2004	$26/0%
Total Population (Millions)/Annual Growth Rate (%) 2003	37.5/1.0
Urban Population (Millions)/Annual Growth Rate (%)	32.6 / NA
Number of Major Metropolitan Areas	4
Size of the Middle Class (Millions)/Growth Rate (%)	12 / NA
Per Capita Gross Domestic Product (U.S. Dollars) 2004	$3,900
Unemployment Rate (%) 2004	15.7%
Per Capita Food Expenditures (U.S. Dollars) 2004	$315
Percent of Female Population Employed 2004	13.0%
Exchange Rate (US$1 = 1 Argentine Peso)	US$1 = 2.9 Arg. Peso